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Economic Defense of the Americas

BY HOWARD J. TRUEBLOOD

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GERMANY'S rapid victories in Europe have destroyed the illusion that the Western Hemisphere is immune to economic and political developments in other parts of the world. In less than a year, the goal of inter-American cooperation has shifted from preservation of neutrality and insulation against the effects of the European war to actual defense of this hemisphere. Nazi totalitarianism has challenged the economic systems and political ideals of the American republics. To meet this challenge, the scope and concept of Pan-Americanism have been vastly enlarged.

The United States, as the dominant member of the Union of American Republics, has taken the lead in efforts to strengthen the economic and political defense of the Western Hemisphere. In a note of June 17, 1940 the State Department warned Germany and Italy, as well as Britain, France and the Netherlands, that "the United States would not recognize any transfer, and would not acquiesce in any attempt to transfer, any geographic region of the Western Hemisphere from one non-American power to another non-American power."[1] On June 17 and 18 both Houses of Congress passed resolutions containing a similar warning.[2] The United States Minister to Uruguay went further when he said, at a luncheon held on June 23 in honor of the officers of the United States cruiser *Quincy*, that it was the "avowed policy of my government to cooperate fully, whenever such cooperation is desired, with all the other American governments in crushing all activities that arise from non-American sources and that imperil our political and economic freedom."[3]

The most far-reaching manifestations of the new Pan-Americanism involve action along economic, as well as political and military lines. On June 22 President Roosevelt announced a comprehensive plan for the "economic defense" of this hemisphere, embodying the creation of an "appropriate inter-American organization for dealing with certain basic problems of their trade relations, including an effective system of joint marketing of the important staple exports of the American Republics."[4] In addition, the President stated that it was the Administration's intention to "proceed promptly and vigorously through many existing agencies to deal with various immediate difficulties now facing some American Republics."[5] Addressing the Second Consultative Meeting of Foreign Ministers of the American Republics at Havana on July 22, Secretary of State Cordell Hull outlined the following program for cooperative action along economic lines:

"1. Strengthening and expansion of the activities of the Inter-American Financial and Economic Advisory Committee as an instrument for continuing consultation with respect to trade matters. . . .

"2. Creation of facilities for the temporary handling and orderly marketing of accumulated surpluses of those commodities which are of primary importance to the maintenance of the economic life of the American Republics, whenever such action becomes necessary.

"3. Development of commodity agreements with a view to assuring equitable terms of trade for both producers and consumers of the commodities concerned.

"4. Consideration of methods for improving the standard of living of the peoples of the Americas. . . ."[5a]

WHY IS ECONOMIC DEFENSE NECESSARY?

In a military sense, protection of the United States involves defense of the entire Western Hemisphere. It has long been recognized that this country cannot permit the establishment of European military bases in any section of the New World. The growth of air power makes it theoretically possible for an enemy to strike at lines of communication, such as the Panama Canal, from many remote sections of Latin America. The friendly co-

1. U.S., Department of State, *Press Releases*, June 19, 1940.
2. *The New York Times*, June 18, 19, 1940.
3. *Ibid.*, June 24, 1940.
4. *Ibid.*, June 23, 1940.
5. *Ibid.*
5a. *Ibid.*, July 23, 1940.

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operation of the Latin American countries is therefore required for the military defense of the United States. Such cooperation obviously could not be extended if any Latin American nation were dominated by a potential enemy, and recent events in Europe have demonstrated that military conquest is not necessary to achieve such domination. Similar results may be obtained by "fifth column" tactics, designed to undermine a government from within, and by economic pressure for political ends.

At present the chief danger for the Western Hemisphere lies in the possibility that Germany, once it has secured control over Europe, may launch an intensive trade drive in Latin America. Such a drive is feared by the United States more because of its political than its economic implications. A Nazi-dominated Europe would require vast quantities of Latin American raw materials and foodstuffs, and would be in a position to produce a large supply of finished goods in exchange. It would presumably also have ample quantities of armaments for sale on terms attractive to Latin American governments which might have militaristic ambitions. Since the United States, under normal conditions, takes no more than a third of Latin American exports, while Europe imports more than half, Germany's bargaining position would be considerably stronger than that of this country. Under the circumstances, even if the Latin American countries found the political philosophy and trading methods of Germany repugnant, they could hardly reject, on moral grounds, the possibility of selling their heavy surpluses of foodstuffs and raw materials to Europe. Each of the Latin American countries, acting alone, could not refuse to sell even if it so desired, and no single country in that region has the economic or military power to reject Germany's terms, despite the fact that these terms may ultimately spell German political domination.[6]

Such domination would be a distinct threat to United States supplies of strategic materials. Latin American resources of the latter are of inestimable potential value to this country, although many of the commodities produced by Latin America and essential to our national defense are of only minor significance so far as that region's total export values are concerned. At present, the Army and Navy Munitions Board lists fourteen strategic materials "for which strict conservation and distribution control measures will be necessary."[7] These materials are antimony, chromium, coconut shell char, ferro-grade manganese, manila fiber, mercury, mica, nickel, quartz crystal, quinine, rubber, silk, tin and tungsten. Latin America is an important producer of antimony, manganese, mercury, quartz crystal and tungsten.[8] Others, such as mica, chromium and coconut shell char, are available in limited quantities and are capable of further exploitation. Climatic conditions in many parts of Latin America are favorable for the production of manila fiber (abacá), quinine, and rubber, although in the case of these products a longer-term program is necessary for development of supplies sufficient for United States needs.

Latin American resources are also essential for the peace-time economy of the United States. No nation has greater resources of raw materials, foodstuffs, industrial capacity, transportation facilities, capital, and labor than the United States, but this country nevertheless relies on Latin America for many of the goods associated with a high general standard of living. Latin America has a virtual monopoly on United States imports of bauxite—from which aluminum is made—bananas, Brazil nuts, carnauba wax, castor beans, chicle, coffee, flaxseed and quebracho, among others.[9] Most of these products could not be obtained in sufficient quantities elsewhere.

Latin America is an important supplier of sisal and henequen, sugar, cacao, hides and skins, manganese and wool. Under normal conditions it would be extremely difficult to shift these purchases to other parts of the world and, under present circumstances, probably impossible. Many of the commodities which figure in United States imports from Latin America would be classified in other countries as luxuries. This is particularly true of coffee, cacao, chicle and bananas. But the fact that these and other commodities are readily available within the Western Hemisphere has tended to remove them from the luxury category in this country.

Despite Hitler's efforts to create a closed economy, and the probable acquisition of colonies by Germany after the war, it would be extremely difficult for Europe as a whole to do without Latin American resources. In 1938 the United Kingdom

6. For a discussion of German trading methods and competition in Latin America prior to the European war, cf. National Economic and Social Planning Association, "War and Our Latin American Trade Policy," *Plan Age*, September 1939; P. W. Bidwell, "Latin America, Germany and the Hull Program," *Foreign Affairs*, January 1939; H. J. Trueblood, "Trade Rivalries in Latin America," *Foreign Policy Reports*, September 15, 1937; and *idem*, "War and United States-Latin American Trade," *Foreign Policy Reports*, December 1, 1939.

7. Cf. Army and Navy Munitions Board, *Commodities Considered Problematical* (Revised March 1940).

8. For a discussion of Latin American resources and production of various strategic and other raw materials, cf. H. J. Trueblood, "Raw Material Resources of Latin America," *Foreign Policy Reports*, August 1, 1940.

9. Cf. Group A table on page 130. Because bauxite originates in Britain and Dutch Guiana, it is not included in this table, which covers imports from the twenty independent republics.

obtained 11.1 per cent of its imports from Latin America; Germany, 15.6 per cent; France, 9.1 per cent; and Italy, 7.7 per cent.[10] While these ratios are not high in terms of total imports, purchases from Latin America represented a substantial part of European raw material requirements. The chief commodities in this trade were petroleum, coffee, cereals, meat, cotton, copper and tin, in none of which is Europe self-sufficient. Latin America's export surpluses, over and above the products absorbed by the Western Hemisphere, may therefore provide the basis for post-war German political penetration of this area.

THE INTER-AMERICAN TRADE PROBLEM

Development of an effective economic defense program for the Americas involves the solution of two major problems. The problem of the United States is to fill the largest possible portion of its import requirements from Latin America. The problem of Latin America is to find a market for surplus commodities not ordinarily sold in the Western Hemisphere without being forced into economic or political dependence on Europe.

An analysis of these problems requires a brief examination of the pre-war bases of Latin American export trade. In 1938 the twenty Latin American republics exported goods valued at $1,802,300,000, of which 30.2 per cent was taken by the United States, 16.8 per cent by the United Kingdom, and 10.5 per cent by Germany, the three principal markets.[11] The dollar value of the United States' share was $543,989,000, while a total of $617,400,000 went to Great Britain, Germany, France, Italy and Japan—the only other countries separately classified—leaving a balance of $640,941,000 shipped elsewhere. It is probable that roughly $200,000,000 of this balance represented direct shipments to other European countries, chiefly the Oslo group, which has absorbed an estimated 10 to 12 per cent of Latin American exports in recent years. Exports to Western Hemisphere countries other than the United States probably accounted for an additional $200,000,000, excluding petroleum shipped from Venezuela to the Netherlands West Indies for refining and re-export. These petroleum exports were valued at $215,607,000,[12] leaving a small balance of shipments to the rest of the world. While such calculations are necessarily rough estimates, owing to conflicting methods of valuation and other factors, it would appear that Latin America in the three years prior to the war sold about 40 per cent of its exports to the Western Hemisphere. The 60 per cent sold outside the Western Hemisphere amounted to about $1,200,000,000 annually in 1936-38, not taking into consideration commodities re-exported by the United States.

According to the trade figures of the twenty Latin American republics, exports to the United States averaged $636,700,000 in 1936-38.[13] United States data on imports from Latin America for the same period indicated an average of $663,100,000, including net gold and silver imports.[14] Although Latin American export and United States import figures varied widely in individual years, the three-year averages are fairly close, which leads to the conclusion that actual Latin American exports to the United States for this period were in the neighborhood of $650,000,000 yearly. This total includes gold and silver shipments (net) averaging $120,500,000 which, with the exception of a certain drain on Argentine reserves, were a commodity rather than a monetary movement, since several Latin American countries are important producers of these precious metals. The total also includes United States imports of copper averaging $28,075,000,[15] almost all of which was refined and re-exported. Although this country is a heavy exporter of oil products, United States imports of petroleum were valued at $20,288,000.[16] Consequently actual United States consumption of Latin American commodities is considerably lower than the over-all figures would indicate.

The chief commodities imported by the United States from Latin America are, in descending order of importance, coffee, sugar, bananas, flaxseed, hides and skins, wool, cacao, molasses and nitrates. Aside from gold, silver, petroleum and copper, these nine commodities accounted for 73 per cent of total United States imports during the 1936-38

10. League of Nations, *Review of World Trade 1938* (Geneva, 1939), p. 32.

11. U.S., Tariff Commission, *The Foreign Trade of Latin America, Part I* (Washington, 1940), p. 41.

12. Latin American Section, Division of Regional Information, Bureau of Foreign and Domestic Commerce, Department of Commerce, *Exports of 20 Leading Commodities from Latin America* (November 1939, mimeographed).

13. Adjusted to include gold shipments from Colombia ($13,500,000 annual average). *The Foreign Trade of Latin America, Part I*, cited, p. 41.

14. Computed from Department of Commerce and Tariff Commission data.

15. United States statistics on imports. A higher total is indicated by Latin American export statistics. In the single year 1938, for example, the United States reported imports of copper valued at $24,938,000 from Latin America, whereas the latter showed exports of copper to the United States totaling $36,860,000.

16. This takes into account only petroleum shipped to the United States from the twenty republics. An approximately equal amount of refined products is imported from Latin American areas outside the twenty republics, chiefly the Netherlands West Indies. As in the case of copper, United States import statistics show a lower value than Latin American exports, the totals having been $18,802,000 and $36,807,000, respectively, in 1938.

period. The export structure of the twenty Latin American republics rests largely on twenty individual products and commodity groups, which made up 88 per cent of the value of all exports in 1938. The United States was the principal market for half these commodities: coffee; sugar; metals (other than copper and tin); linseed; nuts, waxes, oils, etc.; nitrates; bananas; cabinet woods, lumber and quebracho; cacao, and fibers such as henequen.

Of the ten leading commodities which represented 70 per cent of Latin American exports, the United States was the principal market for only three—coffee, sugar, and metals other than copper and tin—with petroleum, meats, copper, wool, cotton, hides and skins, and wheat finding their chief market elsewhere. In the case of wheat, the principal consumer was Brazil, but in all other instances it was a European nation. The United States bought at least half of only six major Latin American exports: coffee, 57 per cent; sugar, 72 per cent; nuts, waxes, oils, etc., 52 per cent; bananas, 79 per cent; cacao, 67 per cent; and fibers, 62 per cent. It is evident that there is a large surplus of even those commodities which the United States imports in heavy volume that is normally sold outside the Western Hemisphere. Moreover, the United States bought only about one-fifth of Latin American oil exports in 1938; 5 per cent of meats; 3 per cent of copper, if re-exports are deducted; 8 per cent of wool; 2 per cent of cotton; 24 per cent of hides and skins; no wheat or corn; 4 per cent of other cereals; and 2 per cent of tin.

THE GEOGRAPHICAL PROBLEM

There is a similar wide variation in the degree of dependence of individual Latin American nations on this country. Generally speaking, dependence on the United States as a market for Latin American exports decreases from North to South. The Caribbean countries as a whole sold over 45 per cent of their exports to the United States during 1938, which places this group definitely within our economic orbit. Seven of these countries found a market here for 60 per cent or more of their exports. They were Panama, 89.2 per cent of exports absorbed by the United States; Honduras, 86.5 per cent; Cuba, 76 per cent; Guatemala, 69.4 per cent; Mexico, 67.4 per cent; Nicaragua, 67.3 per cent; and El Salvador, 61.8 per cent. Owing to the economic influence of the Canal, Panama is completely dependent on the United States, while expenditures of American tourists are of high importance to Cuba, Guatemala and Mexico. The economies of these countries could be linked directly to that of the United States without serious difficulty.

Of the remaining Caribbean countries, the Dominican Republic, Haiti, Costa Rica and Colombia were only slightly less dependent on the United States, which absorbed 44 per cent of their exports. The one country in the entire Caribbean area which has not exported chiefly to the United States is Venezuela, only 13.2 per cent of whose shipments came directly to this country in 1938. There existed, however, a large indirect trade through the Dutch West Indies. Venezuelan exports, moreover, are largely petroleum and, through financial control of a large part of the production, the United States at least theoretically is in a position to influence exports.

The eight remaining countries of Latin America—the South American republics aside from Colombia and Venezuela—present a more difficult trade problem. This bloc accounted for 58 per cent of Latin America's total export trade in 1938. Within this group, the most important economic relations are between the United States and Brazil, since this country absorbed over one-third of Brazilian exports. The West Coast republics—Bolivia, Chile, Ecuador and Peru—sold to the United States about one-fifth of their total exports. On the east coast in 1938 the United States took only 8.5 per cent of exports from Argentina, 4 per cent from Uruguay and 12.2 per cent from Paraguay.

To a very marked extent, the Latin American surplus commodity problem concerns the commodities which three countries—Argentina, Brazil and Chile—sell outside the United States. In 1938 the exports of these countries as a group were valued at $908,400,000, of which only $157,300,000 went to the United States, leaving a balance of $751,100,000 sold elsewhere. While the latter sum includes shipments to other Western Hemisphere markets—notably Argentine wheat shipped to Brazil—a large surplus of grains, meat, cotton, copper and nitrates, to mention a few products, remains.

DEVELOPMENT OF NEW MARKETS IN THE UNITED STATES

Latin America's economic problem can be solved only in part by the creation of new markets for its products in the United States. This country and Latin America are not directly complementary, and each produces many goods which the other could not conceivably use under the existing capitalistic system of distribution. Many apparent surpluses may be eliminated—over a period of time—by economic control measures which may be forced on the American nations, rising standards of living, as well as the immediate plans for construction of a war machine in this country. Meanwhile,

it is important that an attempt should be made to raise United States consumption of Latin American goods wherever possible. Efforts to increase Latin American imports of our products are far less important, since the Latin American market is hardly a key factor in the United States' economic position, and this country is already capable of supplying virtually all Latin American requirements.

Normal imports of the United States from Latin America may be divided into four broad classifications. Group A consists of tropical and temperate products which the United States buys almost wholly from Latin America. Group B includes commodities which are not entirely Latin American monopolies so far as the import requirements of the United States are concerned, but in the supply of which Latin America leads other world competitors. In Group C are listed products of which Latin America supplies roughly 25 per cent or more, but less than 50 per cent. The final classification—Group D—consists of Latin American commodities which could be developed for the United States market, whether or not imported by this country at present.

The following table, based on official statistics covering United States import trade with the twenty independent republics of Latin America—but not the various European colonies—illustrates the relative importance of these groups.

SUMMARY OF UNITED STATES IMPORTS FROM LATIN AMERICA

(*average of 1936-38 import value*)

	Total U.S. Imports	U.S. Imports from Latin America	Per cent of U.S. Imports from Latin America	Ratio to total U.S. Imports from Latin America
	in millions of dollars			
Group A	302.0	283.7	94.0	53.1
Group B	169.8	105.4	62.1	19.7
Group C	166.9	58.3	34.9	10.9
Group D	345.5	4.8	1.4	0.9
Other	1,477.1	82.5*	5.6	15.4
TOTAL	2,461.2	534.7	21.7	100.0

*This sum includes average corn imports of $21,041,000, resulting from unusual conditions in the United States during 1936 and 1937. In addition, it includes cigar-leaf filler, with an average value of $6,883,000.

Group A is the most important classification. Since Latin America already holds a virtual monopoly on the supply of these commodities, there is comparatively little scope for a direct shift to Latin America from other sources of supply. Any enlargement of our market for these products, therefore, must come about through an increase in domestic consumption in this country. Intensive defense preparations in the United States will tend in many cases to bring about an increase in consumption almost automatically, and imports of all commodities in this group—with the possible exception of coffee—would react favorably to economic recovery, whether or not induced by rearmament measures.

GROUP A

United States Imports from Latin America

(*1936-38 average values in thousands of dollars*)

	Total U.S. Imports	Imports from Latin America	Per cent from Latin America	Balance obtained elsewhere
Bananas	29,971	29,971	100.0	....
Babassu nuts	2,115	2,115	100.0	....
Brazil nuts	2,737	2,737	100.0	....
Canned beef	8,652	8,639	99.8	13
Carnauba wax	4,338	4,331	99.8	7
Castor beans	3,104	2,969	95.7	135
Chicle	2,357	2,357	100.0	....
Coffee	140,787	135,220	96.0	5,567
Copper	36,933	28,075	76.0	8,858
Flaxseed	24,244	22,743	93.8	1,501
Molasses	11,781	10,287	87.3	1,494
Nitrates	10,497	10,466	99.7	31
Petroleum	20,871	20,288	97.2	583
Quebracho	3,573	3,573	100.0	....
TOTAL	301,960	283,771	94.0	18,189

Group B is significant to the United States primarily because of sugar, obtained almost wholly from Cuba. The remaining $56,613,000 worth of this commodity—aside from Puerto Rican and Hawaiian supplies—represents imports from the Philippine Islands. If it should become necessary or desirable, there is little doubt that Latin America could supplant the Philippines. Latin American production of the other two commodities in this group—iron ore, and sisal and henequen—could probably be increased on short notice to meet the full United States import demand. Iron ore at present is shipped chiefly from the Bethlehem Steel Company's properties in Chile, and from Cuba, but Brazil and Venezuela also have substantial reserves. It is of some significance that United States imports of sisal and henequen, which originate mainly in Mexico, showed an increase of 135 per cent in volume during the first six months of the European war.

GROUP B

United States Imports from Latin America

(*1936-38 average values in thousands of dollars*)

	Total U.S. Imports	Imports from Latin America	Per cent from Latin America	Balance obtained elsewhere
Iron ore	5,470	3,448	63.0	2,022
Sisal and henequen	12,744	6,961	54.6	5,783
Sugar	151,556	94,943	62.6	56,613
TOTAL	169,770	105,352	62.1	64,418

The commodities listed in Group C offer the best opportunity for immediate expansion in United States consumption of Latin American goods. For this reason, some of the more important products deserve separate consideration.

GROUP C

United States Imports from Latin America

(1936-38 average values in thousands of dollars)

	Total U.S. Imports	Imports from Latin America	Per cent from Latin America	Balance obtained elsewhere
Binding twine	3,838	1,244	32.4	2,594
Cacao	35,165	15,887	45.2	19,278
Cottonseed oil	7,014	2,363	33.7	4,651
Hides and skins	51,902	19,304	37.2	32,598
Manganese ore	8,680	2,227	25.7	6,453
Palm nuts	1,205	386	32.0	819
Wool	57,404	16,452	28.7	40,952
Zinc	1,701	422	24.8	1,279
TOTAL	166,909	58,285	34.9	108,624

Cacao. During the three-year period 1936-38, Latin America supplied about 45 per cent of United States cacao requirements, and the remainder was obtained chiefly from Africa. Latin American output, however, is below normal United States consumption, and full requirements could not be met immediately in this hemisphere. Consequently no problem would arise if the United States took over the entire Latin American production. In addition, there is ample justification for a long-range program to increase output.

Hides and skins. Despite the fact that the United States obtained only slightly more than 37 per cent of its imports of hides and skins from Latin America, full requirements — except for a few specialties — could probably be met in that area. Thus, in 1938 alone, only 24 per cent of Latin America's hide and skin exports went to the United States.

Manganese Ore. Latin American supplies of this commodity are of high strategic importance to the United States, and imports could be substantially increased. The combined output of Brazil and Cuba—the chief producers—is not at present sufficient to meet all United States import requirements, but it is believed that production in both countries could be increased rapidly. In this connection, it might be observed that the percentage of United States manganese imports supplied by Latin America rose from 25 per cent of the total in 1914 to 92 per cent in 1918.

Wool. The position of the United States with reference to Latin American wool is similar to that in the case of hides and skins. On a purely over-all volume basis, Latin America can supply all United States wool imports. Exports from Latin America in 1938, for example, were twelve times as great as United States imports from this source. The difficulty lies in the fact that all of the various grades of wool required by the United States cannot be supplied by Latin America. Nevertheless, a large amount of Argentine wool, formerly sold abroad, could be consumed in this country. As a result of the first World War, United States imports of wool from Latin America rose from 21 per cent of the total in 1914 to 66 per cent in 1918.

The commodities listed in Group D might be further subdivided into three classifications. One consists of products now available in quantity but which, for competitive or other reasons, are not ordinarily exported to the United States. In this category might be placed cashew nuts, tapioca, copra, coconut oil, palm oil, tin and tungsten. Another sub-group is composed of new products, such as abacá, kapok and rubber, which could be produced in volume over a period of years. A third classification would include products now exported to the United States in small amounts which possess varying degrees of development possibilities—chromite, long staple cotton, industrial diamonds, platinum, pyrethrum, and vanilla beans.

GROUP D

United States Imports from Latin America

(1936-38 average values in thousands of dollars)

	Total U.S. Imports	Imports from Latin America	Per cent from Latin America	Balance obtained elsewhere
Abacá	5,534	....	0.0	5,534
Cashew nuts	3,778	6	0.0	3,772
Casings, sheep lamb and goat	7,065	743	10.5	6,322
Chromite	5,537	306	5.5	5,231
Copra	11,580	....	0.0	11,580
Coconut oil	14,506	....	0.0	14,506
Cotton, long staple	5,730	65	1.1	5,665
Diamonds, industrial	5,028	560	11.1	4,468
Kapok	2,853	77	2.7	2,776
Ossein	1,709	....	0.0	1,709
Palm oil	12,197	....	0.0	12,197
Platinum	4,756	814	17.1	3,942
Pyrethrum	1,880	22	1.2	1,858
Rubber	178,596	1,499	0.8	177,097
Tapioca	5,804	100	1.7	5,704
Tin	74,865	....	0.0	74,865
Tungsten	1,532	70	4.6	1,462
Vanilla beans	2,572	523	20.3	2,049
TOTAL	345,522	4,785	1.4	340,737

Investigations conducted by the United States Department of Agriculture and other agencies indicate that Latin America can produce most of the tropical forest and agricultural products required

by the United States and now imported from the Far East or Africa.

In the 1936-38 period the United States imported an average of $3,778,000 worth of *cashew nuts* annually. Although Brazil produces large quantities of these nuts, shipments to the United States have been negligible. Development of modern factory methods and installation of proper machinery would make it possible for Brazil to supply the United States with this product. The same is true of *tapioca*, since the mandioca root from which it is made is available in large quantities in that country. *Copra* and *coconut oil* are products tropical Latin America can supply, but these have been virtually Philippine monopolies owing in part to tax preferences. *Palm oil*, at present obtained for the most part from the Netherlands Indies, could also be produced in Latin America, which is already shipping nuts and kernels to the United States. In the case of copra, coconut oil and palm oil—unlike cashew nuts and tapioca—it is improbable that supplies equal to the full United States demand could be produced on short notice.

Abacá (manila fiber) is at present grown only experimentally in Latin America, principally in Costa Rica, and an increase in supplies, even if a large-scale program were initiated immediately, would take a number of years. *Kapok*, obtained from the pod of the ceiba tree, *quinine*, from the bark of the cinchona tree, and *pyrethrum*, the dried flowers of several species of chrysanthemum, are additional tropical products capable of development. Production of *vanilla beans*, which the United States in the past has obtained chiefly from French colonial possessions outside the Western Hemisphere, could also be increased.

Chromite—one of the commodities on the Army and Navy Munitions Control Board's strategic list, and essential for the manufacture of many steel alloys—presents a more difficult procurement problem. Cuba is the only important Latin American producer at present, and output in recent years has provided but a small fraction of total United States needs. The Cuban product, moreover, is suitable for refractory but not metallurgical uses, although it is possible that it could be refined if cost factors were ignored. While Brazil also contains chromite deposits, reputedly both rich and extensive, development has been limited.

Because the use of *rubber* is so intimately identified with the machinery of peace as well as war, the potential Latin American supply of this product has probably aroused more interest than any other strategic commodity. With coffee and sugar, it is one of the three major imports of the United States, and all but a small percentage of the total supply is obtained in the Middle East — British Malaya and the Netherlands Indies. The rubber tree is indigenous to Latin America, and a minor amount of the wild product—15,000 tons in 1938—is still gathered. Even if this could be increased to a possible maximum of about 25,000 tons, it would be insignificant as compared with normal United States consumption of some 500,000 tons annually. Over the past few years, several experimental rubber plantations have been established in Latin America by private United States interests, and the Department of Agriculture received in 1940 a $500,000 appropriation[17] to undertake further investigations. Present plans, which are expected to take shape within a short time, envisage the production in Latin America of about 10 per cent of the United States crude rubber requirements at the end of seven or eight years. If the present rubber trade should be interrupted, therefore, the United States would be forced to meet the greater part of its needs by reclamation, the use of substitutes, and reduction of civilian consumption to a minimum.

Tin is also among Latin American strategic resources, but the United States obtains almost none of its supplies from this region. Contrary to widespread belief, there is little likelihood that Bolivia—the only important Latin American producer—could meet normal United States needs even if smelters were established in this country. Bolivian production has been decreasing for a number of years, and experts believe that an annual output of approximately 25,000 tons, or about one-third of normal United States imports, is a fair estimate of short-term production. If, in the interests of hemispheric defense and the economic support of Latin America, tin smelters were established in this country and cost factors ignored, Bolivian supplies would probably be sufficient for all military needs. Civilian consumption, moreover, could be checked by the use of substitutes.

Another Latin American commodity—*tungsten*—is also of considerable potential significance to the United States. In 1938 Bolivia had an output of 2,530 tons of concentrates, which may be compared with average annual consumption in the United States of about 4,590 tons during the period 1934-38. Argentina also produces considerable quantities of tungsten—1,063 tons in 1937—while both Chile and Peru have had a limited output in recent years. It is believed, however, that Bolivia alone could produce 4,000 tons a year which, with United States production of an equal amount, would be sufficient for this country's requirements.

17. Cf. H. R. 10104, *Congressional Record*, June 22, 1940, pp. 13535, 13619.

The remaining commodities in Group D have no vital strategic value to the United States, but in each instance consumption could be increased. A complete canvass of potentialities would be necessary before the exact extent to which Latin America could fill United States import requirements of *sheep, lamb* and *goat casings* could be determined, but this trade appears to offer immediate possibilities of expansion. The same is true of *industrial diamonds,* of which Brazil is already an important source. Peru, which now sells most of its crop to Great Britain, could probably replace Egypt as a supplier of *long staple cotton,* which is imported by the United States in large amounts and does not compete with the bulk of the domestic output. This country at present absorbs virtually all of the Colombian *platinum* output, but presumably production could be increased if necessary. *Ossein,* used in the manufacture of gelatin and for other purposes, has been imported almost wholly from Belgium. It is possible that this product could be manufactured for the United States market by Argentina, which has a supply of the necessary raw material—bones—and produces the hydrochloric acid with which they are treated.

THE UNITED STATES IMPORT POTENTIAL

Without a thorough, commodity by commodity, survey of both Latin American resources and United States consumption, only the vaguest generalities may be made regarding the possible economic expansion in this country's imports from Latin America in the near future. Some clue as to trends, however, is offered by analysis of the trade figures covering the first six months of hostilities. During this period—September 1939 through February 1940—United States imports from the twenty independent republics of Latin America were valued at $285,280,000 as compared with $215,273,000 in the corresponding period a year earlier, a gain of 32.5 per cent. On an annual basis, this means an increase of approximately $140,000,000, but from a level abnormally low. Relatively few individual Latin American commodities showed a substantial rise in value. Sugar, wool, hides and skins, and copper (for refining and re-export) contributed heavily to the over-all expansion in imports, while such minor products as castor beans, carnauba wax, quebracho extract, and sisal and henequen recorded wide percentage gains. On the other hand, there was only a slight increase in the value of United States imports of certain leading Latin American products—coffee, cacao, bananas, meats and petroleum—and takings of flaxseed were 42.6 per cent below those of a year earlier.

During the same period, exports from the United States to Latin America rose to $359,665,000, from $234,201,000 in the corresponding months of 1938-39. This represents a gain of 53.6 per cent or, on an annual basis, an increase of about $250,000,000 in what Latin America pays to the United States for goods. In other words, the record of inter-American trade for the first six months of the war demonstrates the ability of the United States to supply the Latin American demand for goods no longer obtainable abroad. At the same time, it shows that this country failed to take the place of Latin America's lost customers.

Under the impact of the first World War, this country's imports from Latin America in 1918 were about $650,000,000 more than in 1913—a gain of 136 per cent. In the last year of that war, the United States absorbed almost 47 per cent of Latin America's exports, and secured over 37 per cent of its import requirements from this source, as compared with recent averages of slightly over 31 and 25 per cent, respectively. To a large extent, the increase in value of United States imports from Latin America between 1913 and 1918 was due to higher prices. No Latin American index is available for that period, but in the United States the composite index of raw material prices—including those for most Latin American export commodities—rose 106.2 per cent from July 1914 to November 1918.

It is conceivable that, in the absence of control measures, certain Latin American commodities needed by the United States—hides and various grades of wool, for example—might be bid up to such an extent that the 1914-18 record would be speedily duplicated. But if Latin America obtains a much higher return for some commodities and fails to find a market for other key products, this would hardly constitute a net gain for the economic structure as a whole. In considering the possible expansion in United States imports from Latin America which might be brought about immediately, the emphasis must be on the maximum possible volume of consumption, rather than on raising price levels. On the basis of the present price structure—which may or may not be maintained—there is a reason to believe that the United States could, on short notice, increase consumption of Latin American products by an amount equal to at least $200,000,000 in value over the 1936-38 level. This necessarily rough estimate is based on a possible gain of $25,000,000 in United States imports of the products in Group A, $10,000,000 in Group B, $100,000,000 in Group C, and $65,000,000 in Group D.

In the case of Group A, assuming consumption

remains at the same level, there is a theoretical margin of $18,176,000, representing commodities now obtained elsewhere which Latin America could supply immediately. Owing to the influence of the war and domestic economic trends, consumption of many of these products has already increased considerably. This is notably true of carnauba wax and quebracho extract, imports of which rose about 60 per cent each during the first six months of the European war. Castor beans also recorded a gain of 38 per cent. Imports of commodities making up all but a small fraction of Group A rose $13,484,000 during the first six months of the war. While this increase represents an annual gain of about $27,000,000, it brought imports of Group A to a level only slightly above the 1936-38 base. For the most part, the gain represented increased volume of consumption rather than price advances, although the latter admittedly played some part. The potential importance of price advances may be illustrated by the fact that a change of one cent a pound in the price of coffee would make a difference of about $20,000,000 in the value of annual United States imports of this commodity.

The estimate of a $10,000,000 increase in imports of Group B commodities is probably more conservative than that in the case of Group A. It is predicated on doubling United States imports of sisal and henequen, and shifting all iron ore imports to Latin America, but no change in the present sugar situation is assumed.

As previously indicated, the possibilities for expansion of United States consumption is greatest in the Latin American products listed in Group C. A gain of $100,000,000 over the 1936-38 annual average appears definitely within the realm of probability. This postulates the transfer to Latin America of all purchases of wool, and hides and skins. It also assumes that Latin America can supply the United States with the greater part of all other Group C commodities now obtained elsewhere. Actually, United States purchases of wool during the first six months of the European war more than doubled, and the value increased from $6,766,000 to $19,542,000—almost 19 per cent over the annual average in 1936-38. The value of hides and skins imported from Latin America advanced over 70 per cent, but the value of cacao imports rose only slightly, while volume declined.

The estimated gain of $65,000,000 in Group D imports is debatable. So far as immediate possibilities are concerned, it may be excessive, but the potential increase in United States consumption of these Latin American commodities, given large-scale development over a period of years, is many times that figure. By the establishment of smelters in the United States, this country could absorb Latin America's entire tin production, which is valued at about $25,000,000 at present prices. Peru could supply a substantial portion of the United States demand for long staple cotton, which is now obtained principally from Egypt. Brazil could produce the cashew nuts and tapioca now purchased elsewhere by the United States, and would probably increase its output of industrial diamonds to a considerable extent. Latin America can supply greater quantities of tungsten, vanilla beans, and a number of other products in this group. While Group C offers the most immediate possibilities for trade expansion, Group D presents the greatest opportunity for long-term development.

THE PROBLEM OF SURPLUS PRODUCTS

A rapid shift in United States imports from other parts of the world to Latin America would still leave a balance of about one billion dollars' worth of products—wheat, corn, cotton, petroleum, copper, meat and coffee, for example—which could hardly be thrown on this country's domestic market. The implications of centralized control over all Latin American exports may be determined somewhat more closely by examining the position of a few of the chief surplus products.

In terms of value, *meat* is the second most important food export of Latin America, but this product finds a very small market in the United States. In 1938 the value of total Latin American meat shipments was $124,000,000, of which the United States took only 5 per cent, consisting for the most part of Argentine, Brazilian and Uruguayan canned corned beef; the bulk—74 per cent—was sold to Great Britain in the form of chilled beef and mutton. In any event, fresh beef cannot be admitted to the United States from Argentina, the principal Latin American producer, because of sanitary restrictions related to the hoof and mouth disease. It might be observed, however, that meat production in the United States in 1938 was over ten times as great as the total meat exports of Latin America in that year.

Wheat and *corn* surpluses would present an immediate problem to a cartel or marketing board. In 1938 the entire Western Hemisphere produced 45,658,000 tons of wheat, and 7,414,000 tons were exported. While wheat consumption in various parts of the New World might be increased as a higher standard of living developed, there is little prospect that the present exportable surplus will be absorbed in the predictable future. Much the same is true of corn, Western Hemisphere production of which was probably in excess of 75,000,000 tons in

1938, with exports amounting to 6,387,000 tons. So far as Latin America is concerned, the only important exporter of these two commodities is Argentina.

As a problem in inter-American trade, *cotton* also ranks high and, as a matter of fact, 1938 shipments from Latin America were valued at $76,500,000, which may be compared with $61,400,000 for wheat and $59,300,000 for corn. Total Latin American exports of cotton, 70 per cent of which originated in Brazil, amounted to 384,235 tons. Contrasted with United States production and exports, this is not an impressive amount, but it would appear that under any conceivable circumstances the Western Hemisphere is faced with a sizeable cotton surplus. Over a period of time efforts to curtail production of these three commodities—wheat, corn and cotton—and to substitute crops at present deficient in the Western Hemisphere may provide a partial solution of the problem, but it would necessarily be a long-term process.

Coffee is by far the most important Latin American tropical product, and while it is clear that the United States could not undertake to subsidize coffee production indefinitely, it is equally evident that Latin American coffee producers would have to be bolstered temporarily. The United States obtains all but a microscopic proportion of its coffee requirements from Latin America, but it is extremely doubtful that present consumption could be increased. Although the United States absorbed 58 per cent of Latin American coffee exports in 1938, this left a surplus valued at approximately $95,000,000 which Latin America sold abroad. In addition, vast quantities of coffee were withheld from the market. Efforts to curtail production extending back over a period of years have not been successful, but it is possible that, under the impact of the present emergency, more drastic measures may be taken than heretofore.

The second most important tropical product is *sugar,* with Latin American exports valued at $115,704,000 in 1938, of which 72 per cent—produced almost entirely by Cuba—came to this country. United States sugar imports are governed by quota restrictions, and there is little likelihood of a substantial increase in consumption requirements. At present a large part of United States sugar requirements is imported from the Philippine Islands; if this trade were interrupted by war, however, Latin American suppliers would doubtless be called on to meet part of the deficiency thus created.

In terms of value, *petroleum* ranks as the chief Latin American export commodity, shipments in 1938 having been valued at $317,361,000. To a great extent this trade is controlled by American capital, and perhaps as much as 25 per cent of the Latin American output comes to the United States. This country, however, is a net exporter of petroleum products, and imports are consequently governed by considerations of corporate policy rather than by a deficiency in domestic supplies.

Latin American *copper,* exports of which amounted to $106,759,000 in 1938, is completely controlled by a few American corporations. While the United States imported 35 per cent of Latin American copper exports in 1938, almost all this metal was refined and re-exported. Actually, no Latin American copper—except for small Cuban supplies—enters into consumption in this country owing to the excise tax of 4 cents a pound, which acts as an effective barrier at current copper prices.

Inasmuch as copper and petroleum are produced entirely by foreign capital, their importance to Latin America is not as great as the export figures might indicate. Yet, while only a part of the indicated export values return to the country of origin, these commodities are essential to the Latin American economic structure. In one sense, copper and petroleum—and even bananas, which are also produced by American capital—present less of a problem than many other Latin American products. In their case the type of centralized control contemplated for the economic defense of the Western Hemisphere has already been achieved. This control at the present time rests in private corporations rather than in an inter-governmental body, but the oil, copper and banana interests are powerful enough to resist Nazi political pressure.

A PROGRAM FOR THE AMERICAS

In the plans now being worked out for the defense of the Americas, the establishment and operation of machinery to permit the orderly marketing of surplus products occupy an important position. The establishment of such machinery, including, perhaps, a cartel, is a valuable emergency feature of the economic defense program. Such action alone, however, is not sufficient to bring about the economic integration of the Americas to the fullest degree possible. Specific steps in a long-range program to supplement immediate United States economic support for Latin America might include the following:

1. **An inventory of the economic resources and production potentialities of the entire Western Hemisphere.** In a broad sense, the component nations of the Western Hemisphere are aware of the trade and resources of the others. At present, however, much more precise and detailed information is needed on the exact manner in which the economic structures

of North, Central and South America may be integrated.

2. **Development of all possible strategic materials in Latin America.** The Army and Navy Munitions Board lists fourteen strategic commodities—antimony, chromium, coconut shell char, manganese, manila fiber, mercury, mica, nickel, quartz crystal, quinine, rubber, silk, tin and tungsten. The Western Hemisphere as a whole is either already self-sufficient, or can become so within a short time, in half these commodities: antimony, coconut shell char, manganese, mercury, nickel, quartz crystal and tungsten. Other strategic commodities—notably manila fiber, quinine and rubber—require long-term development before any substantial needs can be met. Still others, such as chromium, mica and tin, are available in varying amounts but require intensive exploitation.

3. **Acceleration of the program already inaugurated for the development of non-competitive agricultural products in Latin America.** In addition to the strategic commodities which might be produced in Latin America for the United States market, a number of other tropical foodstuffs and raw materials can be cultivated, as pointed out in the section dealing with Group D products. Valuable preliminary investigations along these lines have already been conducted by the United States Department of Agriculture, and the Inter-American Economic and Financial Advisory Committee, as well as other United States and inter-American agencies.

4. **Expansion of manufacturing in Latin America.** While it is possible that Latin America may never become industrialized in the ordinary sense of the word, there is ample economic justification for reducing its dependence on the outside world. A wide range of opportunity exists in manufacturing for the domestic market, as well as for industries supplying non-competitive goods to the United States. The Inter-American Development Commission is actively engaged in surveying specific projects in this field.

5. **Ratification of the Inter-American Bank Convention by all the American Republics.** The Bank, buttressed by adequate resources and the active cooperation of all American nations, could perform a valuable function in the economic defense program.

6. **Completion of the Pan-American Highway and such other transportation links of strategic and economic value as may be considered necessary.**

CONCLUSION

To summarize, the immediate objective of Western Hemisphere economic policy in the event of a Nazi victory is that of defense, which involves reinforcement of the entire Latin American economy against German influence. This policy does not necessarily contemplate cutting off trade with the rest of the world, but would enable the individual American nations to trade on their own terms rather than be forced into economic subjection to Germany.

The Western Hemisphere is not economically self-sufficient, and cannot become so overnight. Manufacturing capacity is adequate to supply all reasonable needs of the New World, but a deficiency exists with regard to certain raw materials—notably rubber, silk, tin and hemp. At the same time, there is a surplus of such major raw materials and foodstuffs as wheat, corn, cotton, coffee, meat, copper and petroleum. Disposal of these surpluses with the least economic disturbance and to the greatest political advantage of the Western Hemisphere is a problem of the highest importance.

The trend of recent developments abroad and the attitude of the Latin American nations at the Havana Conference, which has just come to a close, suggest that this group of countries is ready to cooperate fully with the United States along economic, as well as political lines. Yet, to keep the bonds tight, the United States must be in a position to offer more to Latin America than a victorious Germany. It is not so much a question of what Latin America would choose but of what it might be forced to do under economic pressure. Germany is organized to exert that pressure, as well as to provide economic aid. No haphazard, lofty ideals of Pan-Americanism will be sufficient to keep the Latin American nations in the economic and strategic orbit of the United States after the war. They will remain in that orbit only if it is to their material advantage. The United States cannot expect financial and economic sacrifices from the Latin American countries for a political ideal.

Although the goal of Western Hemispheric economic integration is not narrow imperialism, democratic forms and many of the rights of small nations may be affected by the struggle to meet the totalitarian challenge. At the same time, the question of protecting American markets is incidental to the immediate issue of defense and the ultimate objective of raising the standard of living in the New World. This ultimate objective, however, will prove merely an empty phrase unless it is implemented by a program of Pan-American economic coordination far exceeding that which democratic methods have been able to produce in the past, and unless both the United States and the Latin American countries are ready to make sacrifices for a common cause.

The August 15 issue of FOREIGN POLICY REPORTS *will be*
EUROPEAN POSSESSIONS IN THE WESTERN HEMISPHERE *By A. R. Elliott*